

**REPORT OF THE AUDIT OF THE
SCOTT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SCOTT COUNTY FISCAL COURT

June 30, 2011

The Auditor of Public Accounts has completed the audit of the Scott County Fiscal Court for fiscal year ended June 30, 2011.

We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Scott County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$64,025,647 as of June 30, 2011. The fiscal court had unrestricted net assets of \$21,007,750 in its governmental activities as of June 30, 2011, with total net assets of \$64,014,484. In its business-type activities, total net cash and cash equivalents were \$11,163 with total net assets of \$11,163.

Report Comments:

- 2011-01 The Jailer Needs To Improve Payroll Procedures
- 2011-02 The Jailer Should Implement Effective Internal Controls To Ensure Receipts Are Properly Recorded And Deposited Timely
- 2011-03 The Jail Lacks Adequate Internal Controls Over Receipts, Expenditures, and Reconciliations
- 2011-04 The Jailer Should Properly Account For All Expenditures
- 2011-05 The Jailer Should Account For Unclaimed Inmate Receipts In Accordance With KRS 393.066

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable George Lusby, Scott County Judge/Executive

Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Scott County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Scott County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Members of the Scott County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Scott County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2011 on our consideration of Scott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2011-01 The Jailer Needs To Improve Payroll Procedures
- 2011-02 The Jailer Should Implement Effective Internal Controls To Ensure Receipts Are Properly Recorded And Deposited Timely
- 2011-03 The Jail Lacks Adequate Internal Controls Over Receipts, Expenditures, and Reconciliations
- 2011-04 The Jailer Should Properly Account For All Expenditures
- 2011-05 The Jailer Should Account For Unclaimed Inmate Receipts In Accordance With KRS 393.066

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

December 19, 2011

SCOTT COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

George Lusby	County Judge/Executive
Alvin Lyons	Magistrate
David Livingston	Magistrate
William Parker	Magistrate
Stewart Hughes	Magistrate
John T. Hoffman	Magistrate
Tom Prather	Magistrate
Chuck Tackett	Magistrate

Other Elected Officials:

Glenn Williams	County Attorney
Larry Covington	Jailer
Rebecca Johnson	County Clerk
Karen Boehm	Circuit Court Clerk
Tony Hampton	Sheriff
Tim Jenkins	Property Valuation Administrator
John Goble	Coroner

Appointed Personnel:

Jane L. Lucas	County Treasurer
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**Scott County
Management's Discussion and Analysis
June 30, 2011**

The financial management of Scott County, Kentucky offers readers of Scott County's financial statements this narrative overview and analysis of the financial activities of Scott County for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

General Fund

The fiscal year ending June 30, 2011 had revenues of \$21,963,209. This was an increase of \$1,153,304 over the previous year but a decrease of \$7,111,963 from 2006. The increase was due to slight increases in several categories with the biggest two being an increase in occupational and net profit taxes of \$843,185 and State and Federal grants of \$471,648.

The largest decreases from the previous year in revenues were from two Categories; reimbursements from \$3,295,450 to \$2,579,734 and earned interest on CD's dropping from \$561,459 to \$338,878. The earned interest will continue to decrease in the upcoming year due to the low rates now available as we renew the CD's. There were other smaller decreases in some areas but these two represented the largest amounts totaling \$938,297.

In an effort to balance revenue with expenses in the future years the Fiscal Court has implemented several changes. They include employee participation in the cost of health insurance, changing sick leave policies, reducing vacation time for new employees, combining some jobs and other possible changes as the year progresses.

The biggest concern facing the Fiscal Court in the upcoming year is the continued reduced amount of income from Occupational taxes. Although there was slight increase from the previous year it is nearly \$8,000,000 less than the high just a few years ago. Another issue facing the Court is the rapid growing population and the demand for more services. The Court is also faced with the need to increase the salaries of our employees since there has only been a raise of \$500 in the past three years and reduced benefits have offset even this amount. Another and probably the biggest issue facing the future is the rise in employees retirement cost to the County. There continues to be around 3% increases each year with hazardous duty retirement now at 35% and scheduled to go to over 50%.

Scott County remains in a good financial position at this time having no debt and a carry over of revenue of \$20,114,186. It should be pointed out, however, that just 3 years ago this carry over was \$25,588,357.

The coming years will be a challenge to maintain our excellent financial status due to the reduced revenues, the soaring cost of fuel, the increased need for services due to the rapid population growth, the cost of personnel, the escalating cost of the jail and the down turn in the economy.

As we venture into this unknown state of the economy it will be wise to forego several major projects until the economy stabilizes. It will be the job of the County Judge Executive to keep the Fiscal Court up to date as the year progresses and it will be his responsibility to lead during these difficult times. This, of course, will require the entire Fiscal Court to work together and have the courage to make tough fiscal decisions as we move into the future.

**Scott County
Management's Discussion and Analysis
June 30, 2011
(Continued)**

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Scott County's basic financial statements. Scott County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements. The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of Scott County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Scott County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Scott County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the county that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Scott County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. The county has one business type activity - the operation of a jail canteen.

The government-wide financial statements include not only Scott County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the county. Scott County has one such entity, the public properties corporation. It is known as a blended component unit.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Scott County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Scott County can be divided into three broad categories: *governmental funds, proprietary funds, and fiduciary funds*.

Scott County
Management's Discussion and Analysis
June 30, 2011
(Continued)

Governmental funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Scott County maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Road Fund, both of which are considered major funds by the county. Because the Jail Fund and Hospital Fund are no longer considered special revenue funds under GASB 54, they were included with the General Fund. The Local Government Economic Assistance Fund and McCracken Fund are considered non-major funds and are represented in a combined form.

Scott County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary funds. Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Fiduciary Fund. Scott County has one fiduciary fund. The Jail Inmate Fund is used to account for monies held by the county for a custodial purpose only.

Notes To The Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Scott County
Management's Discussion and Analysis
June 30, 2011
(Continued)

Government-Wide Financial Analysis.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Scott County's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
<u>Assets</u>						
Current And Other Assets	\$ 22,389,748	\$ 21,106,291	\$ 10,814	\$ 11,163	\$ 22,400,562	\$ 21,117,454
Capital Assets	44,003,347				44,003,347	-
Total Assets	66,393,095	21,106,291	10,814	11,163	66,403,909	21,117,454
<u>Net Assets</u>						
Invested In Capital Assets, Net						
Of Related Debt	44,003,347	42,908,193			44,003,347	42,908,193
Restricted For:						
Nonexpendable	88,690	89,334			88,690	89,334
Expendable	8,784	9,207			8,784	9,207
Unrestricted	22,292,274	21,007,750	10,814	11,163	22,303,088	21,018,913
Total Net Assets	\$ 66,393,095	\$ 64,014,484	\$ 10,814	\$ 11,163	\$ 66,403,909	\$ 64,025,647

Scott County
Management's Discussion and Analysis
June 30, 2011
(Continued)

Table 2
Comparison of Governmental Activities

	Governmental Activities		% Change
	2010	2011	
<u>Revenues</u>			
General Revenues-			
Taxes-			
Real Property Taxes	\$ 1,935,377	\$ 2,090,721	8.03%
Personal Property Taxes	106,617	114,398	7.30%
Motor Vehicle Taxes	444,376	489,964	10.26%
Occupational Tax/Net Profit Tax	9,934,938	10,778,123	8.49%
Excess Fees	2,139,850	2,404,057	12.35%
Miscellaneous Revenues	3,904,422	697,861	-82.13%
Accrued Interest Received	604,177	1,812,065	199.92%
Charges For Services	1,216,338	1,206,413	-0.82%
Operating Grants And Contributions	2,229,162	3,795,816	70.28%
Capital Grants And Contributions	-	299,700	100.00%
Total Revenues	<u>22,515,257</u>	<u>23,689,118</u>	5.21%
<u>Expenses</u>			
General Government	12,068,206	13,161,795	9.06%
Protection To Persons And Property	7,922,116	7,867,073	-0.69%
General Health And Sanitation	716,263	676,915	-5.49%
Social Services	337,654	305,011	-9.67%
Recreation And Culture	895,970	1,004,713	12.14%
Roads	2,583,304	2,315,893	-10.35%
Interest On Long-Term Debt	10,331	-	-100.00%
Capital Projects	52,655	753,836	1331.65%
Total Expenses	<u>\$ 24,586,499</u>	<u>\$ 26,085,236</u>	6.10%

Changes In Net Assets.

Governmental Activities. Scott County's net assets decreased by \$2,396,118 in fiscal year 2011.

- Current assets and cash decreased \$1,283,457.
- Investment in capital assets, net of related debt increased \$1,095,154.
- Revenues were \$23,689,118 as reflected in the Statement of Activities.
- Expenditures totaled \$26,085,236 as reflected in the Statement Of Activities.

Business-Type Activities. Scott County's net assets increased by \$349 in fiscal year 2011.

Financial Analysis Of The County's Funds.

As noted earlier, Scott County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Scott County
Management's Discussion and Analysis
June 30, 2011
(Continued)**

Financial Analysis Of The County's Funds (Continued)

Governmental Funds Overview. The focus of Scott County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the county's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2011 fiscal year, the combined ending fund balance of Scott County's governmental funds was \$21,106,291. Approximately 95% (\$20,114,186) of this consists of unassigned fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$992,105) is restricted to indicate that it is not available for new spending because it is committed.

The county has 4 governmental funds. These are 1) General Fund; 2) Road Fund; 3) Local Government Economic Assistance Fund; 4) McCracken Trust Fund.

1. The General Fund is the chief operating fund of Scott County. The Jail and Hospital Funds previously reported as special revenue funds are now included with the General Fund per GASB 54. At the end of the June 30, 2011 fiscal year, the total fund balance of the General Fund was \$20,569,731. The county received \$10,778,123 in occupational and net profit tax revenues. This accounts for approximately 49% of the general fund revenue. \$2,205,119 was received from real and personal property taxes and accounts for approximately 10% of the county's general fund revenue. Revenue generated from the operation of the County's detention program was \$393,499; however, expenses for jail operation totaled \$2,600,759.
2. The Road and Bridge Fund is a fund related to county road construction and maintenance. The Road Fund received \$1,593,291 in operating revenues during the past fiscal year and had a carryover of \$145,491 plus \$1,100,000 transferred in from the General Fund for a total operating amount of \$2,838,782. Expenses for the year were \$2,749,534 leaving a balance of \$89,248.
3. The Local Government Economic Assistance Fund received \$130,685 and had a carryover of \$218,086 for a total operating budget of \$348,771. There were no expenses for the year leaving a balance of \$348,771. Money from this fund is used for road improvements.
4. The McCracken Trust Fund is used to pay for indigent care. The money is generated from a trust fund and only the interest can be spent with one-third of the money going back into the trust fund. The fund received \$1,933 with a carryover of \$97,474 for a total of \$99,407. Expenses for the year totaled \$866 leaving a balance of \$98,541.

With all funds combined the County began the year with a carryover \$22,389,748 and ended the year with a balance of \$21,106,291. This is a net decrease in carryover money of \$1,283,457 for the year for all funds combined.

The total of all funds combined at the end of fiscal year 2008 was \$26,413,642. It should be pointed out that over this three year span the carryover money has decreased a total of \$5,307,351 or an average of \$1,769,117. The Court has taken steps to correct this downward trend. The carryover money should then be used only for major capital expenditures.

Scott County
Management's Discussion and Analysis
June 30, 2011
(Continued)

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, in more detail.

Scott County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net assets of \$11,163 as of June 30, 2011 and a cash balance of \$11,163.

General Fund Budgetary Highlights.

Actual operating revenues were \$2,165,038 more than the amount originally budgeted by fiscal court. This increase was primarily from an increase in net profit tax and reimbursements.

Actual operating expenditures were \$4,294,639 less than amount originally budgeted by fiscal court.

Capital Assets and Debt Administration.

Capital Assets. Scott County's investment in capital assets for its government and business type activities as of June 30, 2011, amounts to \$42,908,193 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and infrastructure. The county has elected to report infrastructure assets per GASB 34 provisions.

Table 3
Scott County's Capital Assets, Net Of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Infrastructure Assets	\$ 12,382,095	\$ 12,165,925	\$	\$	\$12,382,095	\$ 12,165,925
Land	7,617,870	7,617,870			7,617,870	7,617,870
Buildings And Improvements	18,741,925	18,348,696			18,741,925	18,348,696
Other Equipment	1,941,207	1,801,698			1,941,207	1,801,698
Vehicles And Equipment	3,337,757	2,974,004			3,337,757	2,974,004
Total Net Capital Assets	<u>\$ 44,020,854</u>	<u>\$ 42,908,193</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$44,020,854</u>	<u>\$ 42,908,193</u>

Requests for information

This financial report is designed to provide a general overview of Scott County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Scott County Treasurer, P.O. Box 973, Georgetown, KY 40324.

SCOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

SCOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 21,106,291	\$ 11,163	\$ 21,117,454
Total Current Assets	<u>21,106,291</u>	<u>11,163</u>	<u>21,117,454</u>
Noncurrent Assets:			
Capital Assets - Net of			
Accumulated Depreciation			
Land and Land Improvements	7,617,870		7,617,870
Buildings	18,348,696		18,348,696
Other Equipment	1,801,698		1,801,698
Vehicles and Equipment	2,974,004		2,974,004
Infrastructure	<u>12,165,925</u>		<u>12,165,925</u>
Total Noncurrent Assets	<u>42,908,193</u>		<u>42,908,193</u>
Total Assets	<u>64,014,484</u>	<u>11,163</u>	<u>64,025,647</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	42,908,193		42,908,193
Restricted For:			
Indigent Care-Nonexpendable	89,334		89,334
Indigent Care-Expendable	9,207		9,207
Unrestricted	<u>21,007,750</u>	<u>11,163</u>	<u>21,018,913</u>
Total Net Assets	<u>\$ 64,014,484</u>	<u>\$ 11,163</u>	<u>\$ 64,025,647</u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

SCOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 12,612,380	\$ 167,698	\$ 2,036,015	\$
Protection to Persons and Property	7,867,073	913,852	428,838	
General Health and Sanitation	676,915	124,863		
Social Services	305,011			299,700
Recreation and Culture	1,004,713			
Roads	2,865,308		1,330,963	
Capital Projects	753,836			
Total Governmental Activities	26,085,236	1,206,413	3,795,816	299,700
Business-type Activities:				
Jail Canteen	39,734	39,335	748	
Total Business-type Activities	39,734	39,335	748	
Total Primary Government	\$ 26,124,970	\$ 1,245,748	\$ 3,796,564	\$ 299,700

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Tax/Net Profit Tax

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

SCOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (10,408,667)	\$	\$ (10,408,667)
(6,524,383)		(6,524,383)
(552,052)		(552,052)
(5,311)		(5,311)
(1,004,713)		(1,004,713)
(1,534,345)		(1,534,345)
(753,836)		(753,836)
(20,783,307)		(20,783,307)
	349	349
	349	349
(20,783,307)	349	(20,782,958)
2,090,721		2,090,721
114,398		114,398
489,964		489,964
10,778,123		10,778,123
2,404,057		2,404,057
697,861		697,861
1,812,065		1,812,065
18,387,189		18,387,189
(2,396,118)	349	(2,395,769)
66,410,602	10,814	66,421,416
\$ 64,014,484	\$ 11,163	\$ 64,025,647

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

SCOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Non- Major Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 20,569,731	\$ 89,248	\$ 447,312	\$ 21,106,291
Total Assets	<u>20,569,731</u>	<u>89,248</u>	<u>447,312</u>	<u>21,106,291</u>
FUND BALANCES				
Nonspendable:				
Permanent Fund Principal			89,334	89,334
Restricted For:				
Social Services			9,207	9,207
Roads			73,622	73,622
Assigned To:				
Protection to Persons and Property	77,476			77,476
Social Services	378,069			378,069
Roads		89,248	275,149	364,397
Unassigned	<u>20,114,186</u>			<u>20,114,186</u>
Total Fund Balances	<u>\$ 20,569,731</u>	<u>\$ 89,248</u>	<u>\$ 447,312</u>	<u>\$ 21,106,291</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 21,106,291
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	69,284,516
Accumulated Depreciation	<u>(26,376,323)</u>
Net Assets Of Governmental Activities	<u>\$ 64,014,484</u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

SCOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Non- Major Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 14,003,514	\$	\$	\$ 14,003,514
Excess Fees	972,493			972,493
Licenses and Permits	158,087			158,087
Intergovernmental	3,007,288	1,202,942	128,021	4,338,251
Charges for Services	779,074			779,074
Miscellaneous	2,670,483	386,715		3,057,198
Interest	372,270	3,634	4,597	380,501
Total Revenues	<u>21,963,209</u>	<u>1,593,291</u>	<u>132,618</u>	<u>23,689,118</u>
EXPENDITURES				
General Government	6,646,145			6,646,145
Protection to Persons and Property	7,316,641			7,316,641
General Health and Sanitation	652,242			652,242
Social Services	304,145		866	305,011
Recreation and Culture	936,938			936,938
Roads		2,004,520		2,004,520
Capital Projects	558,237	195,599		753,836
Administration	5,807,827	549,415		6,357,242
Total Expenditures	<u>22,222,175</u>	<u>2,749,534</u>	<u>866</u>	<u>24,972,575</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(258,966)</u>	<u>(1,156,243)</u>	<u>131,752</u>	<u>(1,283,457)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		1,100,000		1,100,000
Transfers To Other Funds	(1,100,000)			(1,100,000)
Total Other Financing Sources (Uses)	<u>(1,100,000)</u>	<u>1,100,000</u>		
Net Change in Fund Balances	(1,358,966)	(56,243)	131,752	(1,283,457)
Fund Balances - Beginning (Restated)	21,928,697	145,491	315,560	22,389,748
Fund Balances - Ending	<u>\$ 20,569,731</u>	<u>\$ 89,248</u>	<u>\$ 447,312</u>	<u>\$ 21,106,291</u>

The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

SCOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ (1,283,457)
<p>Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets is allocated Over their Estimated Useful Lives and Reported as Depreciation Expense.</p>	
Capital Outlay	938,090
Depreciation Expense	(2,041,868)
Assets Disposed of, Net Book Value	<u>(8,883)</u>
Change in Net Assets of Governmental Activities	<u>\$ (2,396,118)</u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

SCOTT COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

	Business-Type Activities - <hr/> Enterprise Fund <hr/> Jail Canteen Fund <hr/>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 11,163
Total Assets	<hr/> 11,163 <hr/>
Net Assets	
Unrestricted	11,163
Total Net Assets	<hr/> \$ 11,163 <hr/>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

SCOTT COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 9,473
Miscellaneous	29,862
Total Operating Revenues	<u>39,335</u>
Operating Expenses	
Educational and Recreational	9,949
Personnel Costs	4,298
Miscellaneous	25,487
Total Operating Expenses	<u>39,734</u>
Operating Income (Loss)	<u>(399)</u>
Nonoperating Revenues (Expenses)	
Inmate Pay From State	<u>748</u>
Total Nonoperating Revenues (Expenses)	<u>748</u>
Change In Net Assets	349
Total Net Assets - Beginning	<u>10,814</u>
Total Net Assets - Ending	<u><u>\$ 11,163</u></u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

SCOTT COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund Jail Canteen Fund
Cash Flows From Operating Activities	
Cash received from customers	\$ 9,473
Cash received from other sources	29,862
Cash payments for goods and services	(9,949)
Cash payments for employee salaries and benefits	(4,298)
Cash payments to other sources	(25,487)
Net Cash Provided By Operating Activities	(399)
Cash Flows From Noncapital Financing Activities	
Cash received from state	748
Net Cash Provided By Noncapital Financing Activities	748
Net Increase in Cash and Cash Equivalents	349
Cash and Cash Equivalents - July 1, 2010	10,814
Cash and Cash Equivalents - June 30, 2011	\$ 11,163
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (399)
Net Cash Provided By Operating Activities	\$ (399)

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

SCOTT COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	<u>Agency Fund</u>
	Jail
	Inmate
	<u>Account</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 2,594
Total Assets	<u>2,594</u>
Liabilities	
Amounts Held In Custody For Others	<u>2,594</u>
Total Liabilities	<u>2,594</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Scott County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Scott County Public Properties Corporation

The Scott County Public Properties Corporation is established for the purpose of providing long-term financing for approved projects. The Scott County Fiscal Court is financially accountable for the component unit as part of the reporting entity. However, the Public Properties Corporation had no financial activity and therefore is not presented.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Scott County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Scott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Scott County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function. In compliance with GASB 54, the Jail Fund and Hospital Fund previously reported as a special revenue fund will now be combined and presented in the General Fund.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, and McCracken Fund.

Special Revenue Funds:

The Road Fund and Local Government Economic Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

Permanent Funds:

The McCracken Trust Fund is presented as a permanent fund. Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the county's programs.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Account - This fund accounts for funds received from prisoners upon arrival at the detention center and remitted to the prisoners upon release.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	20-25
Buildings and Building Improvements	\$ 5,000	10-60
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-12
Infrastructure	\$ 5,000	20-40

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Judge Executive to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Scott County Fiscal Court: Georgetown-Scott County Tourism and the Scott County Public Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Scott County Fiscal Court: Park and Recreation and Planning and Zoning.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (D). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2011.

	Road Fund	Total Transfers In
General Fund	\$ 1,100,000	\$ 1,100,000

Reason for transfer:

To move resources from the General Fund, for budgetary purposes, to the fund that will expend them.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 7,617,870	\$	\$	\$ 7,617,870
Total Capital Assets Not Being Depreciated	7,617,870			7,617,870
Capital Assets, Being Depreciated:				
Buildings	24,793,381			24,793,381
Other Equipment	4,498,232	105,329	(72,454)	4,531,107
Vehicles and Equipment	6,602,718		(29,859)	6,572,859
Infrastructure	24,936,538	832,761		25,769,299
Total Capital Assets Being Depreciated	60,830,869	938,090	(102,313)	61,666,646
Less Accumulated Depreciation For:				
Buildings	(6,051,456)	(393,229)		(6,444,685)
Other Equipment	(2,557,025)	(237,955)	65,571	(2,729,409)
Vehicles and Equipment	(3,264,961)	(361,753)	27,859	(3,598,855)
Infrastructure	(12,554,443)	(1,048,931)		(13,603,374)
Total Accumulated Depreciation	(24,427,885)	(2,041,868)	93,430	(26,376,323)
Total Capital Assets, Being Depreciated, Net	36,402,984	(1,103,778)	(8,883)	35,290,323
Governmental Activities Capital Assets, Net	\$ 44,020,854	\$ (1,103,778)	\$ (8,883)	\$ 42,908,193

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 158,408
Protection to Persons and Property	631,330
General Health and Sanitation	24,573
Recreation and Culture	67,775
Roads, Including Depreciation of General Infrastructure Assets	<u>1,159,782</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,041,868</u>

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent.

The county's contribution for FY 2009 was \$2,103,729 FY 2010 was \$2,360,617, and FY 2011 was \$2,260,436.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Deferred Compensation

The Scott County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Insurance

For the fiscal year ended June 30, 2011, Scott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 8. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (Year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through June 30, 2002. All infrastructure assets placed in service during the fiscal year ended June 30, 2003 and thereafter are recorded in actual historical cost.

Note 9. Change in Accounting Principle and Prior Period Adjustment

The county implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of fund balance on the Balance Sheet-Governmental Funds. Additionally, certain funds previously reported as special revenue funds that no longer meet the definition as stated in GASB statement 54 have now been included in the general fund.

As a result, beginning Fund Balance for the General Fund has been increased for the addition of the previously reported Jail Fund and the Hospital Fund. The effect of the change is a total increase of \$567,333 in the General Fund.

Beginning net assets were increased by \$17,507 due to capital assets and depreciation not being included in the in the prior years.

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SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 13,001,000	\$ 13,001,000	\$ 14,003,514	\$ 1,002,514
Excess Fees	910,000	910,000	972,493	62,493
Licenses and Permits	233,000	233,000	158,087	(74,913)
Intergovernmental Revenue	2,265,600	2,265,600	2,703,481	437,881
Charges for Services	637,000	637,000	712,507	75,507
Miscellaneous	2,044,100	2,044,100	2,647,358	603,258
Interest	305,000	305,000	363,298	58,298
Total Revenues	19,395,700	19,395,700	21,560,738	2,165,038
EXPENDITURES				
General Government	6,697,180	7,420,598	6,646,145	774,453
Protection to Persons and Property	5,885,005	5,959,288	5,399,942	559,346
General Health and Sanitation	780,486	781,247	652,242	129,005
Social Services	289,710	294,710	290,645	4,065
Recreation and Culture	976,473	964,473	936,938	27,535
Capital Projects	825,000	825,000	558,237	266,763
Administration	8,448,700	7,657,238	5,123,767	2,533,471
Total Expenditures	23,902,554	23,902,554	19,607,916	4,294,638
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(4,506,854)	(4,506,854)	1,952,822	6,459,676
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(5,460,586)	(5,460,586)	(3,200,000)	2,260,586
Total Other Financing Sources (Uses)	(5,460,586)	(5,460,586)	(3,200,000)	2,260,586
Net Changes in Fund Balance	(9,967,440)	(9,967,440)	(1,247,178)	8,720,262
Fund Balance - Beginning	9,967,440	9,967,440	21,361,364	11,393,924
Fund Balance - Ending	\$ 0	\$ 0	\$ 20,114,186	\$ 20,114,186

SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 948,551	\$ 948,551	\$ 1,202,942	\$ 254,391
Miscellaneous	16,700	16,700	386,715	370,015
Interest	2,500	2,500	3,634	1,134
Total Revenues	967,751	967,751	1,593,291	625,540
EXPENDITURES				
Roads	2,992,520	2,992,520	2,004,520	988,000
Capital Projects	108,000	216,000	195,599	20,401
Administration	768,500	660,500	549,415	111,085
Total Expenditures	3,869,020	3,869,020	2,749,534	1,119,486
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,901,269)	(2,901,269)	(1,156,243)	1,745,026
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	2,901,269	2,901,269	1,100,000	(1,801,269)
Total Other Financing Sources (Uses)	2,901,269	2,901,269	1,100,000	(1,801,269)
Net Changes in Fund Balance			(56,243)	(56,243)
Fund Balance - Beginning			145,491	145,491
Fund Balance - Ending	\$ 0	\$ 0	\$ 89,248	\$ 89,248

SCOTT COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of the General Fund

The *Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis* (the statement) differs from the *Budgetary Comparison Schedule* for the General Fund for total revenues by \$402,471, total expenditures by \$2,614,259, total other financing sources (uses) by \$(2,100,000), beginning fund balance by \$567,333, and ending fund balance by \$455,545; due the inclusion of the Jail Fund and the Hospital Fund, due to compliance with Statement no. 54 of the Governmental Accounting Standards Board.

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SCOTT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

SCOTT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

	LGEA Fund	McCracken Trust Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 348,771	\$ 98,541	\$ 447,312
Total Assets	<u>348,771</u>	<u>98,541</u>	<u>447,312</u>
FUND BALANCES			
Nonspendable:			
Permanent Fund Principal		89,334	89,334
Restricted:			
Social Services		9,207	9,207
Roads	73,622		73,622
Assigned:			
Roads	<u>275,149</u>		<u>275,149</u>
Total Fund Balances	<u>\$ 348,771</u>	<u>\$ 98,541</u>	<u>\$ 447,312</u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011

SCOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

	LGEA Fund	McCracken Trust Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 128,021	\$	\$ 128,021
Interest	2,664	1,933	4,597
Total Revenues	<u>130,685</u>	<u>1,933</u>	<u>132,618</u>
EXPENDITURES			
Social Services		866	866
Total Expenditures		<u>866</u>	<u>866</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>130,685</u>	<u>1,067</u>	<u>131,752</u>
Net Change in Fund Balances	130,685	1,067	131,752
Fund Balances - Beginning	218,086	97,474	315,560
Fund Balances - Ending	<u><u>\$ 348,771</u></u>	<u><u>\$ 98,541</u></u>	<u><u>\$ 447,312</u></u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George Lusby, Scott County Judge/Executive
Members of the Scott County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 19, 2011. Scott County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Scott County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Scott County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Scott County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Scott County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2011-01, 2011-02, and 2011-03 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2011-04 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Scott County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendation as item 2011-05.

The Scott County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

December 19, 2011

SCOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2011

**SCOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2011**

INTERNAL CONTROL – MATERIAL WEAKNESSES

2011-01 The Jailer Needs To Improve Payroll Procedures

Employees from all departments were selected to review their timesheets and recalculate withholdings and earnings. The following non-compliances were noted during the review of timesheets for jail employees:

- Compensatory time was taken by hourly employees at the jail. However, the County does not have a policy allowing compensatory time to be earned.
- Hours worked per timesheets did not agree to hours paid.

Jail employees fill out a timesheet each pay period. Their time is then transferred to a summary sheet which is submitted to the Treasurer to process payroll. Auditor noted that one employee showed “comp time” taken off for three days in March 2011, but on the timesheet submitted to the Treasurer, eight hours was recorded as time worked each day. The Jailer was not able to provide an explanation for the discrepancy other than he and other personnel at the jail were not aware that hourly employees were not allowed to earn compensatory time. In addition, auditor noted that compensatory time was not being tracked by anyone at the jail, but was used on the “honor” system. Vacation and sick leave balances are maintained and tracked by the personnel officer, but jail employees were not showing comp time on timesheets submitted to Fiscal Court. Therefore, these balances were not tracked.

Auditors also found one timesheet (maintained at the jail) that did not agree to the summary sheet submitted to the Treasurer. Although the timesheet was signed by the employee’s supervisor, the error was not caught. In addition, timesheets for two jail employees contained hours that did not appear to be worked because the additional hours were not reflected as an increase to time in or time out nor reflected in regular hours worked for the day. These additional hours were noted as “per Larry” on the timesheets. Per discussion with the Jailer, he did not know why these employees would make that notation because he did not remember asking them to work additional hours. Other instances of overtime worked was properly shown as an increase to time in or time out. Only additional hours noted as “per Larry” were not properly reflected on timesheets.

We recommend the Jailer ensure employees comply with the county’s policy regarding overtime hours and pay. In addition, the Jailer should verify that hours worked per timesheets agree to hours submitted to the Fiscal Court for payment. The Jailer should document his review of this by signing the summary sheet turned into the Treasurer to process payroll.

Jailer Larry Covington’s Response: Operations Manager Michael Humphrey was advised in July 2011 by County Treasurer Jane Lucas that county employees working at an hourly rate are not eligible to earn or use compensatory time. We were not aware of this standard, and we allowed compensatory time on a very limited basis over the past several years. When notified of the regulation, we changed our policy to cease the accrual and usage of compensatory time for all hourly wage staff, effective Jul. 11th, 2011. Staff who had compensatory time had their timesheets reviewed and were paid overtime for any hours that was outstanding which they had worked. Additionally, we have implemented changes to how we prepare our summary time sheets for the County Treasurer. Supervisors maintain time sheets for staff under their supervision. They note any approved absences and overtime and the justification for same. The individual staff time sheet is checked and verified by an administrative assistant who then fills out the official summary time sheet for the Treasurer’s office. The employee further signs that the time recorded is accurate. Operations Manager Humphrey and I (the Jailer) review the completed time sheets for accuracy and justification of overtime. Both of us further sign the time sheets after final review.

SCOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2011
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES (Continued)

2011-01 The Jailer Needs To Improve Payroll Procedures (Continued)

Jailer Larry Covington's Response (Continued): We believe that we have followed all recommendations made by the Office of Auditor of Public Accounts for this section and feel that this particular issue is resolved and will be demonstrated as such in the audit of our next fiscal year.

2011-02 The Jailer Should Implement Effective Internal Controls To Ensure Receipts Are Properly Recorded And Deposited Timely

During receipt testing, the following weaknesses were noted:

- Three-part receipts were not being issued;
- Daily receipts were not batched or maintained;
- No daily checkout sheets were prepared – thus, no comparison was made to the daily deposit ;
- Inadequate review of cash receipts by management;

Good internal controls promote good business practices providing reasonable assurance that financial records and reports are accurate. The lack of effective internal controls increases the risk that errors and/or fraud are detected late or possibly remain undetected. In addition, KRS 68.210 and the Department for Local Government Budget Manual provide minimum bookkeeping requirements for all local government officials. Based on these guidelines and the weaknesses noted above, we are making the following recommendations:

- The Jail should utilize pre-numbered, 3 part receipt forms for all receipts, in which the inmate will get the original, the individual posting to their account will get a copy (if applicable), and a copy is maintained in the jails records attached to the daily checkout sheet.
- All receipts should be batched daily and matched to the deposit slip.
- All receipts should be posted to a detailed daily checkout sheet indicating which receipt category the receipts are to be applied to.
- All receipts should be deposited daily.

Jailer Larry Covington's Response: We have made use of three part receipt forms for booking fees and bond fees. I have instructed staff to cease using two part receipt forms and to start making use of three part receipts as soon as possible for every financial transaction that we make. We will adopt the other recommendations as provided by your office regarding the development and usage of a daily check out sheet, and maintaining daily receipts and batching them together and filing them. I will further personally review the cash receipts regularly and delegate a command or administrative staff member to make bank deposits daily. We have implemented several forms to track these transactions, and have attached these for your review and further guidance and recommendations.

2011-03 The Jail Lacks Adequate Internal Controls Over Receipts, Expenditures, And Reconciliations

During the review of procedures at the jail, it was noted that the same individuals who were primarily responsible for receiving and recording receipts, also ordered and received goods, prepared disbursement checks, signed checks (being the only signature), and was responsible for reconciliation of the accounts. Per discussion with agency personnel and review of bank statements, monthly reconciliations were not performed. In addition, no approvals were required for purchases and there was no supervisory review of disbursements or reconciliations.

SCOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2011
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES (Continued)

2011-03 The Jail Lacks Adequate Internal Controls Over Receipts, Expenditures, And Reconciliations (Continued)

The implementation of internal controls, such as the segregation of duties over receipts and disbursements or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets.

To adequately protect employees in the normal course of performing their duties, and/or prevent inaccurate financial reporting or misappropriation of assets, we are recommending that the jailer implement strong oversight over these areas, either by an employee independent of those functions or by the jailer, such as:

- Require the preparation of a daily checkout sheet for receipts. All receipts should be batched and maintained with the daily checkout sheet. The Jailer should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The review should be documented by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- Periodically perform surprise cash counts and recount cash. This should be documented by initialing the deposit ticket.
- Require dual signatures on all disbursement checks.
- Require prior approval for all purchases, with this approval documented by a signature on the associated purchase order.

Require reconciliations of the accounts monthly. The Jailer should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.

Jailer Larry Covington's Response: In addition to myself, we have three command/administrative staff members. The number of staff to complete all the administrative tasks required is a small number. It is my plan to review our process of ordering supplies, equipment, and services for the facility. We plan to develop and maintain a standard form listing all transactions for purchases in the form of a summary sheet. It is my intention to personally review daily checkout sheets for receipts regularly and to take any appropriate corrective action(s) as necessary. I have ordered two additional persons to be able to sign checks for financial transactions at our two banks. We will go to a system requiring two signatures on each check as recommended. It is my understanding that we have been reconciling our accounts monthly as of August 2011. I state my intention to fully adopt the recommendations of the Office of Public Accounts regarding these matters.

SCOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2011
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY

2011-04 The Jailer Should Properly Account For All Expenditures

During testing of expenditures of the jail commissary, supporting documentation for 3 of the 8 transactions tested could not be located. Without proper supporting documentation, the allowability of the transaction cannot be determined. In addition, auditors were unable to locate a TV purchased with jail commissary funds. Jail personnel did not maintain an asset listing noting the asset nor its location.

Without adequate tracking of purchases, the risk of fraud increases. We recommend the Jailer ensure all invoices are maintained for all expenditures and all assets purchased are accounted for properly. All expenditures should be reviewed and approved by a supervisor or the Jailer. By expenditures being reviewed and approved by a supervisor, in addition to maintaining proper support, the risk of impropriety is reduced.

Jailer Larry Covington's Response: Most of the bills that we encure at our facility are directly paid for by the Scott County Fiscal Court. I have instructed staff to develop and maintain a ledger to list and track all purchase order numbers with the name of the company we receive goods or services from, the date, and the amount. I will review all purchase orders in this manner. We further plan to develop a similar purchase and review process for our "Canteen Account". We acknowledge that are unable to locate one television by its serial number, and I am as concerned about this item as the auditors. For this reason, I have instructed staff to prepare a detailed inventory of equipment and property used and maintained by the facility and to include serial numbers and location(s) where ever possible. Knowing what we actually have on hand is the first step in determining future needs and to be able to account for property owned by the County and its citizens. We will have multiple staff members involved when purchases are of significant financial value.

STATE LAWS AND REGULATIONS

2011-05 The Jailer Should Account For Unclaimed Inmate Receipts In Accordance With KRS 393.066

Per discussion with jail employees, if an inmate still has funds on their books upon their release, a refund is issued by either giving the inmate a refund check at their release or by mailing a check to the inmate at their last known address. If a mailed refund is returned and goes unclaimed, the funds are re-deposited into the bank account.

Per KRS 393.066, "All intangible personal property and any income or increment thereon, held in a fiduciary capacity for the benefit of another person is presumed abandoned unless the owner has, within three (3) years after it becomes payable or distributable, increased or decreased the principal, accepted payment of principal or income, corresponded in writing concerning the property, or otherwise indicated an interest as evidenced by a memorandum on file with the fiduciary:

- (1) If the property is held by a banking organization or a financial organization, or by a business association organized under the laws of or created in this state; or
- (2) If it is held by a business association doing business in this state, or any agent or fiduciary acting for or under contract with a business association doing business in this state, but not organized under the laws of or created in this state, and the records of the business association indicate that the last known address of the person entitled thereto is in this state; or

**SCOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2011
(Continued)**

STATE LAWS AND REGULATIONS (Continued)

2011-05 The Jailer Should Account For Unclaimed Inmate Receipts In Accordance With KRS 393.066 (Continued)

(3) If it is held in this state by any other person.”

In order to be in compliance with KRS 393.066, we recommend that the Jailer account for and keep track of these former inmates' funds separately from other inmates' funds, recording who the funds belong to, and the amounts of the funds belonging to each former inmate.

In addition, the Jailer must retain these funds for a period of three years from the date these funds were available to be paid to the former inmates.

If, after three years of retaining these funds, the rightful owners of the funds have not claimed the funds and the funds remain unclaimed, the funds at that time are "presumed abandoned."

Once these funds are "presumed abandoned" after three years of remaining unclaimed by the former inmates, the Jailer as the "holder" and "fiduciary" must file a report concerning the funds with the Kentucky State Treasurer. The Jailer must also remit the unclaimed funds at this time to the State Treasurer along with this report. There is also a requirement to try to notify the owners of the funds one more time, at their last known address.

Jailer Larry Covington's Response: I would like to state for the record that the account in question is our "Inmate Account". From the time that I have served as Scott County's elected Jailer I can advise that all money we collected from our inmate population upon their entering has been placed in this one account. When a person leaves our custody, we traditionally have either issued a check to them at the time they leave or we mail a check to them at their last known residence. If we are unable to locate them, we have in the past left the money in the general inmate account fund. The money that has been spent from this account has been used solely for lawful purposes for inmates in our population. We were not aware that such money was required to be sent to the Kentucky State Treasurer after three years if we are unable to locate them until this audit. I will immediately cause our practices to adhere to the requirements as set forth by KRS 393.066. It is our intention to open a separate account at a financial institution in which we will deposit, maintain, and disburse monies held for past inmates who we are unable to contact in accordance with law. We will review our past records and make this change as recommended by the Office of Public Accounts as stated by applicable law. I would like to personally thank the auditors for bringing this issue to my attention.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

SCOTT COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2011**

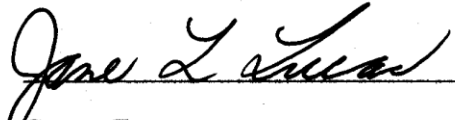
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
SCOTT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The Scott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

